

**AGRICENTER INTERNATIONAL, INC.**  
**(A Component Unit of Shelby County, Tennessee)**  
**FINANCIAL STATEMENTS**  
June 30, 2012 and 2011



Watkins Uiberall, PLLC  
Certified Public Accountants & Financial Advisors  
Independent Member of BKR International

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Agricenter International, Inc.  
Memphis, Tennessee

We have audited the accompanying financial statements of the Agricenter International, Inc. (a component unit of Shelby County, Tennessee) as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agricenter International, Inc. (a component unit of Shelby County, Tennessee) as of June 30, 2012 and 2011, and the change in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2012, on our consideration of the Organization's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 21 through 22 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Watkins Mikusall, PLLC*

Memphis, Tennessee  
November 14, 2012

**Agricenter International, Inc.**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2012**

**Introduction**

This report, Management Discussion and Analysis, provides an overview of the financial position and results of Agricenter International, Inc. for the year ended June 30, 2012. It has been prepared by management and is required supplemental information to the financial statements and footnotes that follow this section. Comparative information for the year ended June 30, 2011 has been provided in a few select instances.

The referenced financial statements were prepared in accordance with Governmental Accounting Standards and Generally Accepted Accounting Principles. Agricenter International, Inc. is a component unit of Shelby County Tennessee. Shelby County issues its own financial statements which include Agricenter International, Inc.

Agricenter International, Inc. is a self-sustaining, not-for-profit organization that provides economic development and improved quality of life by facilitating agricultural research, educational programs, environmental conservation, natural area preservation and recreational opportunities.

**Financial Highlights**

The overall financial position of Agricenter International reflected positive growth in 2011-2012. At the close of our fiscal year ended June 30, 2012, Agricenter had total assets of \$2,358,245, liabilities of \$923,839, and net assets of \$1,434,406. Agricenter's total profit for the year ended June 30, 2012 was \$213,901 and includes \$176,547 in depreciation charges. Total profits also include a departmental loss from Show Place Arena operations for the fiscal year of \$30,039 in the seventh full year of the management agreement with Shelby County Government. Total gross revenue increased by 7.32% over the prior year. Total expenses decreased by 5.72% over the prior year.

There were several factors that contributed to the increase in revenue. A historically strong year in cotton prices yielded a substantial increase in farm income. Continued growth in farm research also contributed to the overall positive change in farm related income. Rental and program revenues posted a small increase over the previous year. Show promoters continue to be pleased with overall attendance numbers and are encouraged with the future outlook.

Long term notes payable decreased from \$180,639 to \$135,169. There were no new term loans issued during the fiscal year. Total principal payments in 2011-12 were \$45,470. Agricenter International has a \$250,000 line of credit with Regions bank. This line of credit is primarily used for operating capital between the Spring planting season and the Fall harvest. As of June 30, 2012, Agricenter has borrowed \$49,998 of the available \$250,000 on this line.

Crop sales as a whole were up by \$112,405 over the previous year primarily due to record cotton prices. RV Park revenue decreased by \$17,326 over the previous year. Event revenue for all venues on Agricenter property increased by \$116,854 over the previous year. In 2011-2012, Agricenter began allocating all General and Administrative costs to each department. See the

table below highlighting each cost center within Agricenter for both 2011-2012 and 2010-2011 with the net income or loss for each area:

| <b>Cost Center Name</b>           | <b>FYE 6/30/12</b> | <b>FYE 6/30/11</b>  | <b>Difference</b> |
|-----------------------------------|--------------------|---------------------|-------------------|
| General & Administrative          | \$ -               | \$ (545,354)        | \$ 545,354        |
| Agricenter Corridor / Expo Center | 54,722             | 171,595             | (116,873)         |
| Farmers Market                    | (29,872)           | (8,926)             | (20,946)          |
| Farm                              | (124,743)          | (109,332)           | (15,411)          |
| Land Leases                       | 215,160            | 381,158             | (165,998)         |
| Farm Research                     | 74,524             | (100,320)           | 174,844           |
| Show Place Arena                  | (30,039)           | (112,086)           | 82,047            |
| RV Park                           | 123,721            | 178,271             | (54,550)          |
| Education                         | (69,571)           | (77,486)            | 7,915             |
| Operating income                  | <u>\$ 213,902</u>  | <u>\$ (222,480)</u> | <u>\$ 436,382</u> |

### Statement of Net Assets

The Statement of Net Assets represents the financial position of Agricenter at the end of the fiscal year and includes all assets and liabilities. Total assets increased by 7.02%. This includes an increase in cash and cash equivalents of 126.59% and an increase in accounts receivable of 17.52% compared to the prior year. We are still collecting for upcoming shows and from regular tenants. Property and equipment was up over the prior year by .2%. Property and equipment additions for the year totaled \$63,019 and depreciation expense for the year totaled \$176,547. Asset disposals for the year totaled \$53,948.

Outstanding debt as of June 30, 2012 had decreased by 20.14% over the previous year. As previously mentioned, no new term loans were issued in 2011-2012. Currently, Agricenter International has three outstanding notes with Regions Bank. The combined principal balance for these notes is \$180,893. One note is scheduled to be paid in full in 2014. The other two notes mature in 2016. Further detail on these notes including interest rate information can be found in Note 6 of the financial statements.

Accounts payable decreased by 5.06% over the previous year.

|  | <b>FYE 6/30/12</b>  | <b>FYE 6/30/11</b>  | <b>Dollar<br/>Change</b> | <b>Percent<br/>Change</b> |
|--|---------------------|---------------------|--------------------------|---------------------------|
| Current assets                                     | \$ 828,905          | \$ 560,394          | \$ 268,511               | 47.91%                    |
| Capital assets                                     | <u>1,529,340</u>    | <u>1,643,145</u>    | <u>(113,805)</u>         | -6.93%                    |
| Total assets                                       | <u>\$ 2,358,245</u> | <u>\$ 2,203,539</u> | <u>\$ 154,706</u>        | 7.02%                     |
| Debt outstanding                                   | \$ 180,893          | \$ 226,516          | \$ (45,623)              | -20.14%                   |
| Other liabilities                                  | <u>742,946</u>      | <u>756,518</u>      | <u>(13,572)</u>          | -1.79%                    |
| Total liabilities                                  | <u>\$ 923,839</u>   | <u>\$ 983,034</u>   | <u>\$ (59,195)</u>       | -6.02%                    |
| Invested in capital assets,<br>net of related debt | \$ 1,348,447        | \$ 1,416,629        | \$ (68,182)              | -4.81%                    |
| Unrestricted                                       | 85,959              | (196,124)           | 282,083                  | -143.83%                  |
| Temporarily restricted                             | <u>-</u>            | <u>-</u>            | <u>-</u>                 | 100.00%                   |
| Total net assets                                   | <u>\$ 1,434,406</u> | <u>\$ 1,220,505</u> | <u>\$ 213,901</u>        | 17.53%                    |

### Statement of Activities

The Statement of Activities presents Agricenter's financial activity for the year.

Agricenter International, Inc. has a diverse stream of revenue, which helps during economic downturns or when crop yields decrease. Below is a comparative table detailing the operating activities for the years ended June 30, 2012 and June 30, 2011.

Total revenue for the year ended June 30, 2012 was \$240,234 or 7.32% more than the prior year due primarily to the increase in farm related income as well as event revenue. Rental and program revenues increased by .25% over the previous year. Farm related revenues increased by 48% over the previous year.

Total expenses for the year ended June 30, 2012 decreased by 5.72%. Operating expenses decreased by 7.73%. Farm and research expenses increased by 11.57%, and depreciation expenses decreased by 3.75%.

|                                 | <b>FYE 6/30/12</b>  | <b>FYE 6/30/11</b>  | <b>Dollar<br/>Change</b> | <b>Percent<br/>Change</b> |
|---------------------------------|---------------------|---------------------|--------------------------|---------------------------|
| Rental and Program Revenue      | \$ 2,591,199        | \$ 2,584,678        | \$ 6,521                 | 0.25%                     |
| Farm and Research Revenue       | 834,154             | 562,176             | 271,978                  | 48.38%                    |
| Other Revenue                   | <u>95,152</u>       | <u>133,417</u>      | <u>(38,265)</u>          | <u>-28.68%</u>            |
| Total revenues                  | <u>3,520,505</u>    | <u>3,280,271</u>    | <u>240,234</u>           | <u>7.32%</u>              |
| Operating Expenses              | 2,752,866           | 2,983,560           | (230,694)                | -7.73%                    |
| Farm Expenses                   | 364,009             | 326,268             | 37,741                   | 11.57%                    |
| Depreciation Expense            | <u>176,547</u>      | <u>183,423</u>      | <u>(6,876)</u>           | <u>-3.75%</u>             |
| Total Expenses                  | <u>3,293,422</u>    | <u>3,493,251</u>    | <u>(199,829)</u>         | <u>-5.72%</u>             |
| Operating Income (Loss)         | 227,083             | (212,980)           | 440,063                  | -206.62%                  |
| Change in Restricted Net Assets |                     | (32,036)            | 32,036                   | -100.00%                  |
| Other Income (Expense)          | <u>(13,182)</u>     | <u>(9,500)</u>      | <u>(3,682)</u>           | <u>38.76%</u>             |
| Change in Net Assets            | 213,901             | (222,480)           | 436,381                  | -196.14%                  |
| Beginning Net Assets            | <u>1,220,505</u>    | <u>1,442,985</u>    | <u>(222,480)</u>         | <u>-15.42%</u>            |
| Ending Net Assets               | <u>\$ 1,434,406</u> | <u>\$ 1,220,505</u> | <u>\$ 213,901</u>        | <u>17.53%</u>             |

### Capital Assets

To date, Agricenter International, Inc. has invested \$4.65 million dollars in capital assets that include leasehold improvements, buildings, farm equipment, landscaping equipment, office equipment and vehicles.

Leasehold improvements increased by 2.94%. Several small improvement projects were completed in 2011-12 including air conditioning repairs and upgrades in the main expo building. Donated equipment increased by 22.59%. Agricenter depreciates assets over the useful life of the asset using straight line depreciation.

The following table reflects the above noted changes:

|                             | <b>FYE 6/30/12</b>  | <b>FYE 6/30/11</b>  | <b>Dollar<br/>Change</b> | <b>Percent<br/>Change</b> |
|-----------------------------|---------------------|---------------------|--------------------------|---------------------------|
| Buildings                   | \$ 857,895          | \$ 857,895          | \$ -                     | 0.00%                     |
| Leasehold Improvements      | 2,649,603           | 2,574,009           | 75,594                   | 2.94%                     |
| Farm Equipment              | 383,117             | 456,607             | (73,490)                 | -16.09%                   |
| Landscaping and Other Equip | 358,106             | 360,908             | (2,802)                  | -0.78%                    |
| Donated Equipment           | 164,511             | 134,197             | 30,314                   | 22.59%                    |
| Office Equipment            | 185,015             | 187,955             | (2,940)                  | -1.56%                    |
| Vehicles                    | <u>61,052</u>       | <u>78,657</u>       | <u>(17,605)</u>          | <u>-22.38%</u>            |
| Subtotal                    | 4,659,299           | 4,650,228           | 9,071                    | 0.20%                     |
| Depreciation                | <u>(3,129,959)</u>  | <u>(3,007,083)</u>  | <u>(122,876)</u>         | <u>4.09%</u>              |
| Net Fixed Assets            | <u>\$ 1,529,340</u> | <u>\$ 1,643,145</u> | <u>\$ (113,805)</u>      | <u>-6.93%</u>             |

### **Contacting the Agricenter International, Inc. Management**

This financial report is designed to provide the public with a general overview of the Agricenter's finances. You may contact the management of Agricenter International, Inc. at 7777 Walnut Grove Road, Memphis, TN 38120 (901) 757-7777.

**AGRICENTER INTERNATIONAL, INC.**  
**(A Component Unit of Shelby County, Tennessee)**

**STATEMENTS OF NET ASSETS**

June 30, 2012 and 2011

|   | <u>Assets</u>                     |              |
|---|-----------------------------------|--------------|
|   | 2012                              | 2011         |
| <b>Current Assets</b>                           |                                   |              |
| Cash and cash equivalents                       | \$ 424,529                        | \$ 187,362   |
| Accounts receivable - net                       | 296,819                           | 291,881      |
| Vendor credit                                   | 45,195                            | -            |
| Prepaid expenses                                | 30,577                            | 13,517       |
| Inventory                                       | 31,785                            | 67,634       |
| Total current assets                            | 828,905                           | 560,394      |
| <b>Capital Assets</b>                           |                                   |              |
| Capital assets, being depreciated, net          | 1,529,340                         | 1,643,145    |
|   | \$ 2,358,245                      | \$ 2,203,539 |
|   | <u>Liabilities and Net Assets</u> |              |
| <b>Current Liabilities</b>                      |                                   |              |
| Accounts payable                                | \$ 228,353                        | \$ 240,524   |
| Accrued expenses                                | 108,496                           | 117,521      |
| Deferred income                                 | 314,094                           | 296,573      |
| Security deposits                               | 42,005                            | 36,005       |
| Line of credit                                  | 49,998                            | 65,895       |
| Current maturities of notes payable             | 45,724                            | 45,877       |
| Total current liabilities                       | 788,670                           | 802,395      |
| <b>Long-Term Liabilities</b>                    |                                   |              |
| Notes payable, net of current maturities        | 135,169                           | 180,639      |
| Total liabilities                               | 923,839                           | 983,034      |
| <b>Net Assets</b>                               |                                   |              |
| Invested in capital assets, net of related debt | 1,348,447                         | 1,416,629    |
| Unrestricted (deficit)                          | 85,959                            | (196,124)    |
| Total net assets                                | 1,434,406                         | 1,220,505    |
|   | \$ 2,358,245                      | \$ 2,203,539 |

The accompanying notes are an integral part of the financial statements.

**AGRICENTER INTERNATIONAL, INC.**  
**(A Component Unit of Shelby County, Tennessee)**

**STATEMENTS OF ACTIVITIES**

For the Years Ended June 30, 2012 and 2011

|                                       | 2012         | 2011         |
|---------------------------------------|--------------|--------------|
| Unrestricted Net Assets               |              |              |
| Operating Support and Revenues        |              |              |
| Rental and lease revenue              | \$ 1,165,823 | \$ 1,287,616 |
| Program and special events            | 1,425,376    | 1,297,062    |
| Farm and research revenue             | 834,154      | 562,176      |
| Contributions                         | 30,971       | 5,566        |
| Other revenue                         | 64,181       | 127,851      |
| Total operating support and revenues  | 3,520,505    | 3,280,271    |
| Operating expenses                    | 3,293,422    | 3,493,251    |
| Operating income (loss)               | 227,083      | (212,980)    |
| Non-Operating Revenue (Expense)       |              |              |
| Interest income                       | 3,160        | 1,372        |
| Interest expense                      | (16,342)     | (10,872)     |
| Total non-operating revenue (expense) | (13,182)     | (9,500)      |
| Change in unrestricted net assets     | 213,901      | (222,480)    |
| Net assets - beginning of year        | 1,220,505    | 1,442,985    |
| Net assets - end of year              | \$ 1,434,406 | \$ 1,220,505 |

The accompanying notes are an integral part of the financial statements.

**AGRICENTER INTERNATIONAL, INC.**  
**(A Component Unit of Shelby County, Tennessee)**

**STATEMENTS OF CASH FLOWS**

For the Years Ended June 30, 2012 and 2011

|   | 2012         | 2011         |
|---|--------------|--------------|
| Cash Flows Provided By (Used For) Operating Activities              |              |              |
| Receipts from customers   | \$ 3,487,418 | \$ 3,482,311 |
| Interest received   | 3,160        | 1,372        |
| Payments to suppliers   | (1,550,421)  | (1,706,726)  |
| Payments to employees   | (1,562,709)  | (1,642,226)  |
| Interest paid   | (16,342)     | (10,872)     |
| Net cash provided by operating activities                           | 361,106      | 123,859      |
| Cash Flows From (Used For) Capital and Related Financing Activities |              |              |
| Purchases of capital assets   | (63,019)     | (79,916)     |
| Proceeds from sale of fixed assets                                  | 600          | -            |
| Net payments on line of credit                                      | (15,897)     | (337)        |
| Proceeds from issuance of note payable                              | -            | 26,200       |
| Principal payments on notes payable                                 | (45,623)     | (26,106)     |
| Net cash used for capital<br>and related financing activities       | (123,939)    | (80,159)     |
| Net increase in cash and cash equivalents                           | 237,167      | 43,700       |
| Cash and cash equivalents at beginning of the year                  | 187,362      | 143,662      |
| Cash and cash equivalents at end of the year                        | \$ 424,529   | \$ 187,362   |

The accompanying notes are an integral part of the financial statements.

**AGRICENTER INTERNATIONAL, INC.**  
**(A Component Unit of Shelby County, Tennessee)**

**STATEMENTS OF CASH FLOWS (CONTINUED)**

For the Years Ended June 30, 2012 and 2011

Reconciliation of Change in Net Assets to Net Cash  
 Provided By (Used For) Operating Activities:

|   | 2012       | 2011         |
|---|------------|--------------|
| Cash Flows Provided By (Used For) Operating Activities                            |            |              |
| Change in net assets  | \$ 213,901 | \$ (222,480) |
| Adjustments to Reconcile Net Assets to Net Cash Used<br>for Operating Activities: |            |              |
| Depreciation  | 176,547    | 183,423      |
| Gain on sale of fixed assets  | (323)      | -            |
| Bad debts   | 6,152      | 11,181       |
| Forgiveness of debt   | -          | (12,301)     |
| Changes in Assets and Liabilities:  |            |              |
| Accounts receivable   | (11,090)   | (57,018)     |
| Vendor credit   | (45,195)   | -            |
| Insurance claim receivable  | -          | 57,570       |
| Prepaid expenses  | (17,060)   | (787)        |
| Inventory   | 35,849     | (63,302)     |
| Accounts payable  | (12,171)   | 56,314       |
| Accrued expenses  | (9,025)    | (31,349)     |
| Deferred income   | 17,521     | 216,073      |
| Security deposits   | 6,000      | (13,465)     |
| Total adjustments   | 147,205    | 346,339      |
| Net cash provided by operating activities   | \$ 361,106 | \$ 123,859   |
| Noncash Investing and Financing Activities:                                       |            |              |
| Equipment financed through the issuance of long-term debt                         | \$ -       | \$ 197,433   |

The accompanying notes are an integral part of the financial statements.

**AGRICENTER INTERNATIONAL, INC.**  
**(A Component Unit of Shelby County, Tennessee)**

**NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2012 and 2011

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization and Nature of Operations

Agricenter International, Inc. (the "Agricenter") is a self-sustaining, not-for-profit organization that provides economic development and improved quality of life by facilitating agricultural research, educational programs, environmental conservation, natural area preservation, and recreational opportunities. The activities of the Agricenter are overseen by the Shelby County Agricenter Commission, a commission created by the State of Tennessee and approved by vote of the Board of Commissioners of Shelby County. Shelby County provides for Agricenter's structural insurance for buildings on the grounds. The Agricenter insures and pays all other types of insurance and maintenance of the buildings and grounds. The Agricenter's financial statements are reported as a component unit of Shelby County, Tennessee.

Basis and Method of Accounting

Enterprise funds account for operations (a) that are financed and operated in a manner similar to private enterprises where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. Therefore, the financial statements of the Agricenter are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues relate to lease of land and facilities. Operating expenses for enterprise funds include the cost of providing those services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Agricenter applies Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

### Concentration of Credit Risk

The Agricenter maintains its cash in bank deposit accounts which at times may exceed the federally insured limit of \$250,000. The Agricenter has not experienced any losses in such accounts, and management believes it is not exposed to any significant credit risk for cash and cash equivalents.

### Deferred Revenue

Deferred revenue includes amounts that were unearned at year end. Deferred revenues primarily include unearned revenues from amounts received in advance for rent of facilities and land.

### In-Kind Contributions

Donated materials are recorded as contributions at their estimated fair values at the date of donation. Contributions of services are recognized in the financial statements if the services enhance or create non-financial assets or require specialized skill, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Donations of capital assets are recorded as unrestricted contributions at the date of donation unless the donor has restricted the donated asset to a specific purpose.

### Advertising Costs

All advertising costs are expensed as incurred. Advertising expense for the years ended June 30, 2012 and 2011 was \$6,077 and \$6,794, respectively.

### Cash and Cash Equivalents

For statement of cash flow purposes, Agricenter considers all cash accounts, which are not subject to significant withdrawal restrictions or penalties, and highly liquid debt instruments purchased with an original maturity of three months or less to be cash and cash equivalents. At June 30, 2012 and 2011, cash and cash equivalents included certificates of deposit of \$123,769 and \$123,646, respectively.

### Accounts Receivable

Agricenter records accounts receivable at their estimated net realizable value. An allowance for doubtful accounts is recorded based upon management's estimate of uncollectible accounts, determined by analysis of specific accounts and general reserve based upon aging of outstanding balances. Past due balances of delinquent receivables are charged against the allowance when

they are determined to be uncollectable by management. The allowance for doubtful accounts was \$9,187 and \$8,350 at June 30, 2012 and 2011, respectively.

### Vendor Credit

The Agricenter receives utility credits for electricity produced by the solar panels. These credits are payable to the leaseholder whom owns and manages the solar panels. The Agricenter records these credits as an asset and related liability.

### Inventory

Inventory is valued at the lower of cost or market as determined by the first-in, first-out method.

### Income Taxes

The Agricenter is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to their tax-exempt purpose is subject to taxation as unrelated business income. The Agricenter files an exempt return in the U.S. federal jurisdiction. The federal returns for the tax years 2008 and beyond remain subject to examination by the taxing jurisdiction.

### Capital Assets

Capital assets are stated at acquisition cost, if purchased, and estimated fair value at the date of the contribution, if contributed. Major renewals and betterments that extend the useful lives of assets are also recorded at cost. Expenditures for normal repair and maintenance are expensed as they occur. Depreciation is determined using various methods over the estimated useful lives of the assets, which range from 3 to 39 years.

### Net Assets

Net assets are displayed in three components:

- a. Invested in capital assets – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets – consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions enabling legislation.
- c. Unrestricted net assets – all other net assets that do not meet the definition of “restricted” or “invested in capital assets.”

### Compensated Absences

Agricenter employees are granted sick and annual leave in varying amounts in accordance with administrative policies. Accumulated vacation days in excess of five days are required to be used

annually. Upon termination of employment, unused accumulated vacation up to fifteen days will be paid.

### Reclassifications

Certain amounts in the 2011 financial statements have been reclassified for comparative purposes to conform to the 2012 presentation. The reclassifications have no effect on previously reported net assets.

### Subsequent Events

Management has evaluated subsequent events through November 14, 2012, the date the financial statements were available to be issued and is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

## **NOTE 2 – BUDGETARY INFORMATION**

The Controller prepares a preliminary annual budget compiled from revenue and expense projections. The Board of Directors reviews and approves the adoption of the final budget for the Agricenter. The budget can be amended during the year as the Board deems necessary. The Controller presents proposed budget amendments to the Board by line item during Board meetings. The amendments are discussed and then voted on during the meeting. When amendments are passed, the Controller makes adjustments to his budget to include the newly approved amendments.

## **NOTE 3 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2012 was as follows:

|  | Balance<br><u>June 30, 2011</u> | <u>Reclassification</u> | <u>Increases</u>   | <u>Decreases</u> | Balance<br><u>June 30, 2012</u> |
|--|---------------------------------|-------------------------|--------------------|------------------|---------------------------------|
| Capital Assets, Being Depreciated:             |                                 |                         |                    |                  |                                 |
| Buildings                                      | \$ 857,895                      | \$ -                    | \$ -               | \$ -             | \$ 857,895                      |
| Leasehold improvements                         | 2,574,009                       | 54,400                  | 26,221             | (5,027)          | 2,649,603                       |
| Farm equipment                                 | 456,607                         | (54,400)                | -                  | (19,090)         | 383,117                         |
| Donated equipment                              | 134,197                         | -                       | 31,637             | (1,323)          | 164,511                         |
| Landscaping and other equipment                | 360,908                         | -                       | 2,406              | (5,208)          | 358,106                         |
| Office equipment                               | 187,955                         | -                       | -                  | (2,940)          | 185,015                         |
| Vehicles                                       | <u>78,657</u>                   | <u>-</u>                | <u>2,755</u>       | <u>(20,360)</u>  | <u>61,052</u>                   |
| Total capital assets,<br>being depreciated     | 4,650,228                       | -                       | 63,019             | (53,948)         | 4,659,299                       |
| Less accumulated depreciation                  | <u>(3,007,083)</u>              | <u>-</u>                | <u>(176,547)</u>   | <u>53,671</u>    | <u>(3,129,959)</u>              |
| Total capital assets<br>being depreciated, net | <u>\$ 1,643,145</u>             | <u>\$ -</u>             | <u>\$(113,528)</u> | <u>\$ (277)</u>  | <u>\$ 1,529,340</u>             |

Capital asset activity for the year ended June 30, 2011 was as follows:

|  | Balance<br><u>June 30, 2010</u> | <u>Reclassification</u> | <u>Increases</u> | <u>Decreases</u> | Balance<br><u>June 30, 2011</u> |
|--|---------------------------------|-------------------------|------------------|------------------|---------------------------------|
| Capital Assets, Being Depreciated:             |                                 |                         |                  |                  |                                 |
| Buildings                                      | \$ 857,895                      | \$ -                    | \$ -             | \$ -             | \$ 857,895                      |
| Leasehold improvements                         | 2,544,417                       | (20,500)                | 50,092           | -                | 2,574,009                       |
| Farm equipment                                 | 222,371                         | 20,500                  | 213,736          | -                | 456,607                         |
| Donated equipment                              | 134,197                         | -                       | -                | -                | 134,197                         |
| Landscaping and other equipment                | 359,408                         | -                       | 1,500            | -                | 360,908                         |
| Office equipment                               | 178,734                         | -                       | 9,221            | -                | 187,955                         |
| Vehicles                                       | <u>75,857</u>                   | <u>-</u>                | <u>2,800</u>     | <u>-</u>         | <u>78,657</u>                   |
| Total capital assets,<br>being depreciated     | 4,372,879                       | -                       | 277,349          | -                | 4,650,228                       |
| Less accumulated depreciation                  | <u>(2,823,660)</u>              | <u>-</u>                | <u>(183,423)</u> | <u>-</u>         | <u>(3,007,083)</u>              |
| Total capital assets<br>being depreciated, net | <u>\$ 1,549,219</u>             | <u>\$ -</u>             | <u>\$ 93,926</u> | <u>\$ -</u>      | <u>\$ 1,643,145</u>             |

#### NOTE 4 – LINE OF CREDIT

The Agricenter has \$200,002 of credit available at June 30, 2012 under a \$250,000 revolving line of credit agreement with a financial institution. Interest is payable monthly at the bank's prime rate plus one percent (4.25% at June 30, 2012). The credit line is secured by the inventory, accounts receivable, equipment, and fixtures of the Agricenter.

#### NOTE 5 – COMMITMENTS

The Agricenter leases approximately 1,000 acres, which includes the main building, farmers markets, farm shop, and recycling plant located at Shelby Farms, from the Shelby County Agricenter Commission. The lease agreement provides that the Agricenter will pay annually a minimum rent of \$1. The term of the lease is for a period of ten years beginning February 1, 2005, with three additional ten-year renewal options. This in-kind donation and related expense have not been reflected in the financial statements.

Additional payments of \$20,000 annually paid to the Agricenter Commission are to be used for repairs and maintenance to the Agricenter facility or other purposes as determined by the Commission that comply with the mission of the Agricenter. This contingency fund will be paid to a maximum of \$200,000.

## NOTE 6 – NOTES PAYABLE

Notes payable at June 30, 2012 and 2011, consisted of the following:

|  | <u>2012</u>       | <u>2011</u>       |
|--|-------------------|-------------------|
| Note payable to bank. 4.95% interest, due in monthly installments of \$755 principal and interest, maturing on September 25, 2014. Secured by inventory, accounts, equipment and fixtures. | \$ 19,242         | \$ 27,120         |
| Note payable to bank. 5.25% interest, due in monthly installments of \$2,716 principal and interest, maturing on May 19, 2016. Secured by inventory, accounts, equipment and fixtures.     | 115,357           | 140,964           |
| Note payable to bank. 5.05% interest, due in monthly installments of \$1,027 principal and interest, maturing on August 29, 2016. Secured by inventory, accounts, equipment and fixtures.  | 46,294            | 54,400            |
| Note payable to related party, due in monthly installments of \$400 principal only, maturing in April 2012.  | -                 | 4,032             |
| Total notes payable  | <u>180,893</u>    | <u>226,516</u>    |
| Less current maturities  | <u>(45,724)</u>   | <u>(45,877)</u>   |
| Notes payable, net of current maturities   | <u>\$ 135,169</u> | <u>\$ 180,639</u> |

Future scheduled maturities payable at June 30, are as follows:

|      |                   |
|------|-------------------|
| 2013 | \$ 45,724         |
| 2014 | 48,135            |
| 2015 | 43,734            |
| 2016 | 41,222            |
| 2017 | 2,078             |
|      | <u>\$ 180,893</u> |

## NOTE 7 – RELATED PARTY TRANSACTIONS

Agricenter conducts transactions with companies that are affiliated with members of the Board. For the year ended June 30, 2012, Agricenter's financial statements include related party transactions of \$18,601 in legal fees, \$17,730 in equipment purchases, \$43,129 in chemical purchases, and \$42,790 in event revenue. For the year ended June 30, 2011, related party transactions included \$38,083 in legal fees and \$15,000 in consulting fees.

## **NOTE 8 – AGREEMENT WITH SHELBY COUNTY**

The Agricenter entered into a one-year lease with Shelby Farms Park on February 1, 2012 concerning approximately 300 acres of farmland located at Shelby Farms. The agreement includes an option to renew for one additional one-year period and allows for the Agricenter to farm this land with annual rent due to Shelby Farms Park of \$4,000.

The Agricenter has a management agreement with Shelby County Government to manage the Show Place Arena. The term of this contract began on January 1, 2009 and continues through December 31, 2013. The contract may be extended upon mutual written consent of the parties for three additional five-year renewal periods. The contract provides that any profits realized by Agricenter from the operation of the Show Place Arena will be used to make up any accumulated operating deficits incurred by Agricenter. Profits above and beyond the forgoing will be used to improve the Show Place Arena.

## **NOTE 9 – RETIREMENT PLAN**

The Agricenter sponsors a 401(k) Retirement Plan to provide retirement benefits for employees who meet certain eligibility requirements. The Agricenter makes matching contributions to the Plan equal to 100% of each participant's salary deferral that does not exceed 4% of the participant's compensation. Participating employees become vested in employer contributions over a six year period. Agricenter's contributions during the years ended June 30, 2012 and 2011 were \$23,663 and \$17,687, respectively. Effective July 2006, Agricenter sponsored a 401(k) retirement plan under which employees may defer a portion of compensation in an amount not to exceed the annual statutory limits of the Internal Revenue Code.

## **NOTE 10 – RISK MANAGEMENT**

It is the policy of the Agricenter to purchase commercial insurance for the risks of losses to which it is exposed. These risks include general liability, property and casualty, worker's compensation, employee health and accident, and environmental. Payments of premiums for these policies are recorded as expenses of the Agricenter. Buildings included in the lease from the Shelby County Agricenter Commission are insured by Shelby County. Insurance settlements have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in coverage compared to prior years.

## **NOTE 11 – LEASE INCOME**

The Agricenter leases land, buildings, and office space under noncancellable operating leases that expire on various dates through 2037. The leases require fixed lease payments plus subsequent adjustments based on the prior year's consumer price index. The Agricenter also leases a cell tower under two noncancellable operating leases that expire on various dates through 2020. One tower lease requires fixed lease payments, and the other tower lease requires fixed lease payments plus a percentage of the rental amounts received from all parties utilizing the tower.

Future minimum rentals from noncancellable operating leases are as follows for the years ending June 30:

|            |                     |
|------------|---------------------|
| 2013       | \$ 891,795          |
| 2014       | 646,233             |
| 2015       | 538,894             |
| 2016       | 343,831             |
| 2017       | 349,097             |
| Thereafter | 854,052             |
|            | <u>\$ 3,623,902</u> |

## NOTE 12 – OPERATING EXPENSES

Operating expenses for the years ended June 30, 2012 and 2011 consisted of the following:

|  | <u>2012</u>         | <u>2011</u>         |
|--|---------------------|---------------------|
| Legal and professional                         | \$ 35,125           | \$ 89,576           |
| Bad debts                                      | 6,152               | 11,181              |
| Contract labor                                 | 4,300               | 5,102               |
| Depreciation                                   | 176,547             | 183,423             |
| Employee benefits and taxes                    | 271,640             | 288,656             |
| Travel   | 16,524              | 16,541              |
| Insurance                                      | 160,515             | 151,690             |
| Taxes and licenses                             | 5,644               | 5,483               |
| IT supplies                                    | 1,370               | 1,838               |
| Janitorial                                     | 40,373              | 33,622              |
| Miscellaneous                                  | 9,045               | 17,907              |
| Salaries and wages                             | 1,172,164           | 1,243,680           |
| Seminars and meeting                           | 728                 | 7,529               |
| Telephone                                      | 46,438              | 53,120              |
| Utilities and waste disposal                   | 519,739             | 556,636             |
| Farm   | 364,009             | 352,028             |
| Landscaping, repairs, maintenance and supplies | 230,154             | 240,497             |
| Program and special events                     | 37,792              | 31,460              |
| Education                                      | 100,942             | 98,951              |
| Office and computer supplies                   | 22,286              | 30,626              |
| Advertising, marketing and promotion           | 6,077               | 6,794               |
| Security                                       | 4,336               | 6,752               |
| Equipment rental                               | 61,522              | 60,159              |
|  | <u>\$ 3,293,422</u> | <u>\$ 3,493,251</u> |
| Total operating expenses                       | <u>\$ 3,293,422</u> | <u>\$ 3,493,251</u> |

## **SUPPLEMENTAL INFORMATION**

**AGRICENTER INTERNATIONAL, INC.**  
**(A Component Unit of Shelby County, Tennessee)**

**BUDGETARY COMPARISON SCHEDULE**

For the Year Ended June 30, 2012

|  | Original<br>and Final<br>Budget | Actual       | Favorable<br>(Unfavorable)<br>Variance |
|--|---------------------------------|--------------|--|
| <b>Operating Support and Revenues</b>          |                                 |              |  |
| Rental and lease revenue                       | \$ 1,129,903                    | \$ 1,165,823 | \$ 35,920                              |
| Program and special events                     | 1,309,901                       | 1,425,376    | 115,475                                |
| Farm and research revenue                      | 752,391                         | 834,154      | 81,763                                 |
| Contributions                                  | -                               | 30,971       | 30,971                                 |
| Other revenue                                  | 54,742                          | 64,181       | 9,439                                  |
| Total operating support and revenues           | 3,246,937                       | 3,520,505    | 273,568                                |
| <b>Operating Expenses</b>                      |                                 |              |  |
| Legal and professional                         | 24,000                          | 35,125       | (11,125)                               |
| Bad debts                                      | 2,400                           | 6,152        | (3,752)                                |
| Contract labor                                 | 2,820                           | 4,300        | (1,480)                                |
| Depreciation                                   | 218,880                         | 176,547      | 42,333                                 |
| Employee benefits and taxes                    | 290,362                         | 271,640      | 18,722                                 |
| Travel   | 16,691                          | 16,524       | 167                                    |
| Insurance                                      | 128,208                         | 160,515      | (32,307)                               |
| Taxes and licenses                             | 7,474                           | 5,644        | 1,830                                  |
| IT supplies                                    | 2,100                           | 1,370        | 730                                    |
| Janitorial                                     | 31,044                          | 40,373       | (9,329)                                |
| Miscellaneous                                  | 7,207                           | 9,045        | (1,838)                                |
| Salaries and wages                             | 1,176,396                       | 1,172,164    | 4,232                                  |
| Seminars and meeting                           | 1,200                           | 728          | 472                                    |
| Telephone                                      | 43,488                          | 46,438       | (2,950)                                |
| Utilities and waste disposal                   | 576,998                         | 519,739      | 57,259                                 |
| Farm   | 309,582                         | 364,009      | (54,427)                               |
| Landscaping, repairs, maintenance and supplies | 207,744                         | 230,154      | (22,410)                               |
| Program and special events                     | 12,036                          | 37,792       | (25,756)                               |
| Education                                      | 103,800                         | 100,942      | 2,858                                  |
| Office and computer supplies                   | 32,999                          | 22,286       | 10,713                                 |
| Advertising, marketing and promotion           | 7,270                           | 6,077        | 1,193                                  |
| Security                                       | 3,220                           | 4,336        | (1,116)                                |
| Equipment rental                               | 23,100                          | 61,522       | (38,422)                               |
| Total operating expenses                       | 3,229,019                       | 3,293,422    | (64,403)                               |

See independent auditor's report.

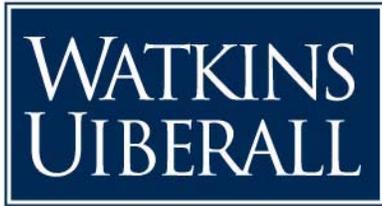
**AGRICENTER INTERNATIONAL, INC.**  
**(A Component Unit of Shelby County, Tennessee)**

**BUDGETARY COMPARISON SCHEDULE (CONTINUED)**

For the Year Ended June 30, 2012

|                                       | Budget     | Actual     | Favorable<br>(Unfavorable)<br>Variance |
|---------------------------------------|------------|------------|--|
| Operating income                      | 17,918     | 227,083    | 209,165                                |
| Non-Operating Revenue (Expense)       |            |            |  |
| Interest income                       | 1,320      | 3,160      | 1,840                                  |
| Interest expense                      | (23,070)   | (16,342)   | 6,728                                  |
| Total non-operating revenue (expense) | (21,750)   | (13,182)   | 8,568                                  |
| Change in net assets                  | \$ (3,832) | \$ 213,901 | \$ 217,733                             |

See independent auditor's report.



Watkins Uiberall, PLLC  
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## **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Board of Directors  
Agricenter International, Inc.  
Memphis, Tennessee

We have audited the financial statements of the Agricenter International, Inc. (a component unit of Shelby County, Tennessee) as of and for the year ended June 30, 2012, and have issued our report thereon dated November 14, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Agricenter International, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agricenter International, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agricenter International, Inc.'s internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, or material weaknesses. We did not

identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agricenter International, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of Agricenter in a separate letter dated November 14, 2012.

This report is intended solely for the information and use of management, the Board of Directors, others within the organization, Shelby County, and the State of Tennessee, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Watkins Mikusall, PLLC". The signature is written in a cursive, flowing style.

Memphis, Tennessee  
November 14, 2012